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SUBJECT: Waiting to Inhale: Important First Steps in South China's
Pollution Control Efforts (Part Two of Two)

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REF: A) Guangzhou 27482
B) Hong Kong 3633

11. (SBU) SUMMARY: Provincial and municipal governments have implemented many pollution-control measures, most notably installing desulfurization equipment, closing factories, developing an emissions trading scheme, implementing a "credit system," and increasing regional cooperation. Despite these efforts, however, the enforcement of control measures remains a major obstacle due to a lack of funding, personnel, and a perceived conflict between environmental enforcement and economic development. However, the local Environmental Protection Bureau (EPB) officials with whom Congenoffs met appear to be dedicated to their efforts, despite the overwhelming task ahead. Now that the central government has brought environmental protection forward as a priority, EPB officials may finally have the political backing to effectively enforce environmental regulations. END SUMMARY.

Unprecedented Policy Measures Taken by Beijing

12. (SBU) Because of the mounting economic and health costs attributed to pollution, the Chinese government at the national level has pledged to spend 1.6% of its GDP annually over the next five years to clean up the environment and to prevent further degradation, according to a National People's Congress official. In China's 11th Five-year Plan, a target was set to reduce major pollutant emissions by 10% over the next five years. For the first time, "pollution reduction" was included along with "economic growth" to serve as an indicator of provincial and local governments' performance. The central government is also setting ambitious targets for energy conservation, has tightened fuel-economy standards for vehicles, and has encouraged construction of more energy-efficient buildings. China is striving to develop

alternative energy sources such as wind, geo-thermal, and solar power.

So What is South China Doing About the Problem?

¶3. (SBU) According to South China EPB officials and media reports, several initiatives are being undertaken to fight pollution. The following programs are illustrative of South China's efforts.

GUANGDONG-HONG KONG COOPERATION

¶4. (U) Hong Kong and Guangdong officials met on August 2 for a cross-border conference on joint cooperation to discuss, among other issues, efforts by both sides to set regional emission reduction targets. Under emission and effluent quotas assigned to individual provinces by the State Council, Guangdong should lower its sulfur dioxide emissions from 1.29 million tons in 2005 to 1.1 million tons by 2010.

¶5. (U) Guangdong and Hong Kong officials have pledged to review the progress and effectiveness of the control measures laid out in 2003 in the Pearl River Delta (PRD) regional air quality management plan.

In a joint statement issued in April 2002, the two sides pledged to put in place additional measures to reduce the regional emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x), respirable suspended particulate matter (PM) and volatile organic compounds (VOC) by 40%, 20%, 55%, and 55% respectively by 2010, using 1997 as the base year.

Environmental groups, however, have criticized these standards for being too low. The two sides have also publicly pledged to enhance cross-border cooperation on environmental protection and agreed to continue both the operation of the PRD Regional Air Quality Monitoring Network and the daily release of the Regional Air Quality

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Index (RAQI) to the public.

¶6. (SBU) The South China Morning Post reported on August 15 that Hong Kong and Guangdong are using different calculations to measure emissions reduction. As a result, Guangdong has set pollution emission targets that are significantly higher than Hong Kong's targets. The 2002 cross-border agreement sets the 2010 target mainland SO₂ emissions at 312,000 tons, but in 2005 the Guangdong Government set the target at 398,000 tons, a difference of 27.6%. Guangdong's target for NO_x is 16.1% higher than the 2002 agreement, and the target for PM is 154% higher. This has angered Hong Kong lawmakers and will decrease the likelihood of effective cooperation on an emissions trading scheme. Hong Kong Environmental Protection Department officials explained that Guangdong has a different way of estimating emissions. Guangdong authorities have not disclosed in what way their methods of estimating emissions differ from Hong Kong's. It is more likely that Guangdong will be unable to meet the target emission levels as agreed in 2002, and is attempting to readjust its targets accordingly.

FACTORY CLOSURES

¶7. (U) Guangdong EPB Director, Li Qing, said that over the past three years more than 1,500 factories in South China, mainly concrete manufacturers and small-scale power plants, have been closed because of the pollution and environmental hazards they posed. These closures create a framework for future environmental enforcement efforts and represent a significant step in the right direction.

DESULFURIZATION EQUIPMENT

¶8. (U) Li also said authorities are offering subsidies to power plants in the region for installing devices that remove sulfur from flue gas. (Note: A Hong Kong academic explained that subsidies are necessary because the devices decrease the power generation of a plant by roughly 10%. Since power plants cannot independently raise rates to cover this loss, they have no incentive to install the devices without a subsidy. End note.) Academics estimate that installing these devices could reduce emissions of sulfur dioxide (SO₂) by up to 90%. Only 18% of factories in the region are

currently using these devices, which have helped to reduce emissions by up to 200,000 tons a year, according to Hong Kong press reports. At least half of Guangdong's large power plants are expected to be equipped with the devices by the end of next year, according to environmental officials. Wu Qianchao, the chief engineer of the Guangzhou EPB, told Congenoffs that while Guangzhou is promoting desulfurization technologies, more funding is needed to purchase advanced pollution control equipment.

¶19. (U) The Shajiao C power plant in Humen, operated by Guangdong Yudean Power Company, pledged to install sulfur-reduction devices by the end of 2006. It is estimated that these devices will cost RMB 600 million (approximately USD 75 million).

EMISSIONS TRADING PILOT SCHEME

¶10. (SBU) Hong Kong and Guangdong officials have also agreed to finalize later this year an emissions trading scheme for thermal power plants in the Pearl River Delta (PRD). Under the scheme, emitters would be allowed to buy the rights to pollute, or sell rights if their emissions are lower than their quotas. The scheme would allow trading in three main types of pollutants: sulfur dioxide (SO₂), nitrogen dioxide (NO₂), and particulate matter (PM). The extent of trade will be largely determined by the emissions caps imposed on power plants. The trading deals will be reached privately between the parties, and they will not be obliged to publicly disclose the details of these deals. Wu Qianchao from the Guangzhou EPB told Congenoffs that the scheme is a sensitive issue in the region, in part because private industries want to protect their emissions data. Wu noted that the Guangzhou EPB has agreed

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not to publicly release this data. Emissions data will be monitored by regulatory bodies in Guangdong and Hong Kong.

¶11. (U) Guangdong's largest power producer, the Yudean Group, said it would consider joining the scheme. Hong Kong power companies CLP Power and Hong Kong Electric, however, have recently expressed reservations about the scheme, which is not mandatory.

¶12. (U) Guangdong officials have expressed hope that this scheme can help them reach emissions reduction targets by 2010, as scheduled in the PRD Regional Air Quality Management Plan. Guangdong and Hong Kong plan to release details of this scheme in the third quarter of 2006 for presentation to power plants on both sides of the border so that prospective participants can identify trading partners and draw up emission trading agreements.

CREDIT SYSTEM

¶13. (U) On 1 January 2006, the Guangdong EPB implemented a "credit system" to target enterprises with high pollutant emissions, according to the EPB website. The EPB selected approximately 200 Guangdong enterprises to monitor under this system, including large coal and fossil fuel-fired power plants, as well as other key industrial polluters. Under the credit system, the Guangdong EPB evaluates enterprises on 13 indicators, including pollution control, enforcement of environmental laws and regulations, and public supervision, then issues a color-coded card based on the results. A green card indicates an "honest" enterprise, a yellow card signifies a "warning," and a red card means the company requires "strict management." To encourage the public to participate in the system, the EPB publicizes the evaluation information on the Guangdong and Guangzhou EPB websites, as well as in other public media outlets. The public can then call a hot line to register complaints about an enterprise's pollution.

ON-LINE MONITORING SYSTEM

¶14. (U) Concurrent with the implementation of the credit system, Guangdong also plans to invest RMB 12 million (USD 1.5 million) by the end of 2006 to set up an on-line monitoring system covering 120 key pollution sources. This system would provide regulatory agencies real-time information about the volume of discharged sewage, the density of primary pollutants, and the operating conditions of the pollution prevention equipment. The system

reportedly will raise an alarm if an enterprise illegally discharges pollutants, and enforcement personnel would be dispatched to the site to investigate.

RELOCATION

¶115. (U) In late July, officials from the Guangzhou EPB released the Environment Protection Standards and Requirements for "Tuier" Enterprises in Guangzhou. (Note: The term "tuier" refers to seven types of polluting industrial enterprises located in old districts of Guangzhou which do not meet environmental protection standards and are slated to be moved out gradually by 2010. End Note.) The plan, in the works since 2005, will soon be submitted to the Municipal Government for approval. According to EPB officials, a list of the companies to be included in the program is being drawn up and contains 151 enterprises so far. According to an EPB official, Mayor Zhang Guangning said that moving the enterprises does not mean that pollution will merely move to another place; it means that the companies will also undergo industrial upgrades and technological reforms.

¶116. (U) The Guangdong Government has also published guidelines requesting that new projects in the electro-plating, chemical, and paper industries be located in designated industrial parks. The Guangdong EPB is also investigating 10 major polluting industries, including the dyeing and chemical industries, to incorporate them into a database of heavily polluting industries. The EPB hopes to

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establish a plan to locate these industries in designated industrial zones in order to more easily monitor and control environmental damage.

CLEANER ENGINES AND FUEL

¶117. (U) Beginning September 1, newly registered cars must now have engines that meet Euro III standards. While this is a positive step to reduce future vehicular emissions, older cars and trucks still on the road will prevent significant reductions in vehicle emissions in the short-term. The sale of leaded gasoline was banned in Beijing, Shanghai, and Guangzhou in 1999. In July 2000, its sale was banned throughout the country. At the same time, the government introduced new unleaded gasoline quality standards. Diesel fuel must now meet the Euro III standard in Beijing, Shanghai, and Guangzhou. There are plans to extend this to the rest of China in 2008, by which time the Chinese Government is aiming for Euro IV fuel standards in the three major cities. However, according to a Hong Kong think-tank report, it appears that manufacturers are able to buy non-standard, higher-pollution fuel oil from local private refineries. One estimate suggested these private refineries supplied as much as 40% of the fuel oil in the Guangdong market in 2004-2005.

FIELD STUDY

¶118. (U) A field study called Campaign of Air Quality Research Experiment (CARE-PRD) studied the formation and transport of key pollutants that make up the photochemical smog in the PRD region. This study, led by Peking University and the Guangdong Environmental Monitoring Center (EMC), was funded by China's National Science Foundation (NSF). More than 100 Chinese and foreign scientists participated in this study throughout the month of July. Three "super sites" were set up in Guangzhou, Qingyuan, and Panyu to measure the key photochemical pollutants, particulate matter, and ozone (and their precursors), as well as meteorological data. More than 20 local EPBs in the PRD participated in the study. The results of this study are expected to be published in international journals in 2007. The same team of scientists planned a similar campaign in Beijing (CARE-Beijing) for the month of August.

PAN-PEARL RIVER DELTA COOPERATION

¶119. (U) Since 2004, annual conferences regarding Pan-Pearl River Delta (PPRD) regional environmental protection cooperation have been held to discuss issues related to air and water pollution prevention, information sharing, public outreach and education. In addition, "environmental protection" has been included as a key

element under the framework of the PPRD regional cooperative protocol.

Comment: Slow Start?

¶20. (SBU) Most EPB officials with whom Congenoffs have met appear to be very dedicated to their jobs and committed to cleaning up the environment. They are, however, hamstrung by a lack of funding and personnel. In addition, our academic contacts in this field are willing to voice their disagreement with certain policy issues to Congenoffs and to Chinese officials, but they believe that their views are often ignored by officials. They have eagerly responded to efforts by post's Science Fellow to increase bilateral communication and cooperation. Post is seeking new EPA Science Fellows for FY '07 to continue this communication and cooperation.

¶21. (SBU) While these efforts are an important first step, they do not seem designed to effect any notable reductions in pollution levels in the near term. Moreover, the temptation to overlook environmental concerns in favor of economic development is stronger in this region, the showcase of economic reform and opening, than any pollution abatement efforts. Guangdong authorities, for example, recently took an unusually hard-line in demanding that big

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polluters who did not meet standards for waste water treatment comply or risk being shut down. While the original compliance deadline was the end of June, authorities relented just before the deadline and postponed compliance checks until the end of the year. While the reasons behind the postponement are not entirely clear, the backpedaling does not project an image of a government willing to require tough action at any cost. South China cannot politically afford to set standards it cannot hope to meet. As a result, it must set lower standards that it may be able to achieve in the near future, implementing stricter standards as its enforcement capacity improves and the political will for such enforcement strengthens.

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